

FEB 2018



# SAMNIDHY'S STOCK PICK OF THE MONTH



## DIRECTOR'S MESSAGE



Samnidhy, the Student Managed Investment Fund (SMIF) of T.A. Pai Management Institute (TAPMI), was started in December 2014.

Registered with Karnataka State's Registrar of Firms, it has the unique distinction of being the one and only legally-registered SMIF in India. The SMIF is completely student-run, with student investors, student analysts and student Board of Directors.

The corpus is raised from the student body of TAPMI, the objective being to maximize investor's wealth – both in terms of finance and learning. The analysts' research is powered by the 24X7 TAPMI Finance Lab, a world-class trading lab equipped with 16 Bloomberg terminals and 7 Reuters terminals.

In sum, Samnidhy provides the students of TAPMI a unique opportunity to work for and run a full-fledged investment firm while still at business school, thus giving them an unparalleled learning advantage over their peers.

With a corpus of INR 8,00,000, Samnidhy invests across different sectors in the Indian equity market and has a strong team of 52 analysts and 14 marketing professionals.

## DIRECTOR'S MESSAGE



I am pleased to announce the launch of a new initiative “Stock Pick of the Month”. Each month, Samnidhy analysts would recommend one stock. This month the Samnidhy analysts are recommending Mahindra & Mahindra.

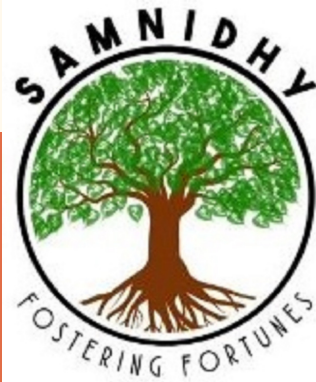
I hope that the stock picks provide excellent learning and investment opportunities for the TAPMI community.

Team Samnidhy aspires to be the best SMIF in India. I am confident that with your support and encouragement Samnidhy will scale to dizzying heights in the world of investments.

Happy Investing!

Onwards and Upwards

Professor Madhu Veeraraghavan  
Director and T.A. Pai Chair Professor of Finance  
Samnidhy Advisory Board



# MAHINDRA AND MAHINDRA

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## KEY HIGHLIGHTS OF MAHINDRA & MAHINDRA (M&M)

- Being the largest tractor company in India, M&M remains a key beneficiary of strong rural demand. Management expects Tractor industry to grow by 12-14% (earlier 10- 12%) in FY18, resulting in surpassing of previous sales peak of FY14
- Price increase of 1.5% and 1.7% was taken in Automotive and Tractor segments in Q2FY18
- Focus is to continue on new model launches (new/variants) in UV space- U321 MPV and S201 Compact UV to be launched over next one year
- By 2020, all PV models will have CNG & Petrol variants
- Refresh of existing models - KUV 100, Scorpio & XUV 500 (as per management, the new KUV has got a good response & they are targeting 4000 units per month)
- Normal monsoon to show a lag effect on the PV vehicles from rural economy
- Company has already formulated a plan to make battery assembly, rotor, transmission & electronic manufacturing for EVs
- M&M recent acquisitions to help diversify farm equipment revenue and tap global markets

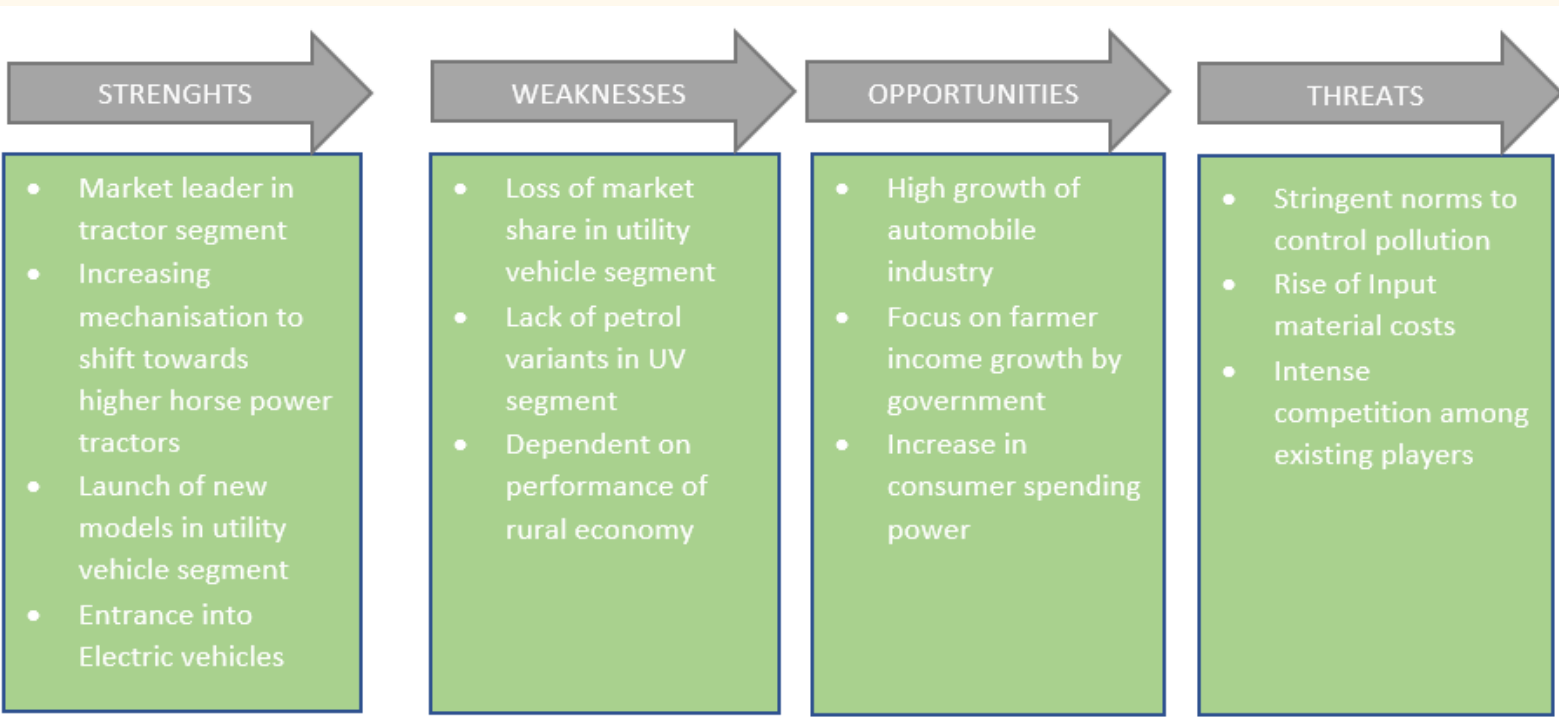


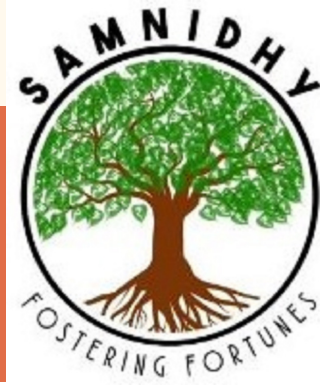


## INVESTMENT RISK

- In FY12-17, the market share of M&M in the UV segment has almost halved from ~55.6% to ~29.2% :
- Reasons for the market share loss:
  - Focus on UV space by incumbents and competitive UV launches got stronger response
  - Lack of petrol UV variants
  - Slowdown in rural economy in FY15 & FY16, as M&M has approximately 40% exposure to rural economy (impacted rural models like Bolero & Scorpio)

## SWOT ANALYSIS OF M&M





# KEY NUMBERS

## Stock Details

52 Week High/Low	785.7 /588.67
Market Capitalization (in Rs Cr)	935,50.7
Total Debt (FY17)	2,625.20
Cash and Investments (FY17)	1,687.20
Equity capital (Rs. In Cr)	296.30

	1M	3M	1 year
M&M	8%	17%	23%
Relation to Nifty	5%	12%	-5%

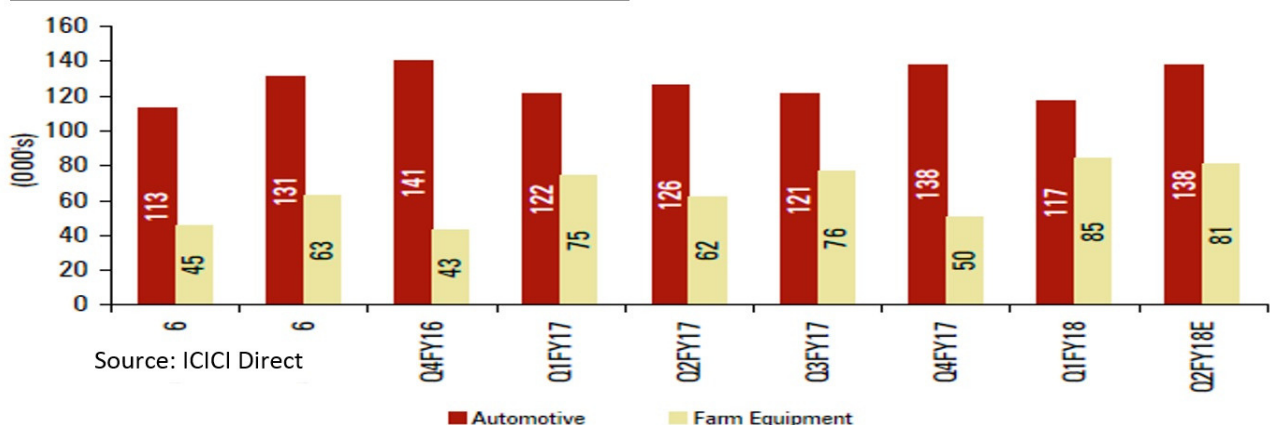
## Shareholding Pattern

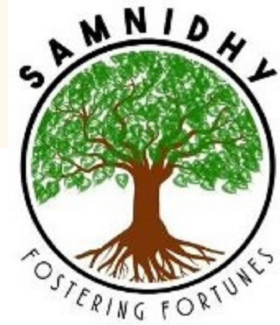
Promoters	25.20%
FIIs	34.00%
DIIs	19.90%
Public and Others	20.90%

## M&M Unit Sales

Segment	M&M		
	Q2F18	Q2F17	Growth
Utility Vehicles	61,516	52,287	17.7%
Vans & Cars	4,098	3,852	6.4%
LCV Goods	46,910	40,561	15.7%
LCV > 3.5T	1,540	1,563	-1.5%
3W	13,611	15,413	-11.7%
HCV Goods (>16.2T)	2,079	1,118	86.0%
AS (Dom) Total	129,754	114,794	13.0%

## Volumes Trend – FES & Automotive





Source: Bloomberg

Fig 1: M&M price chart & Nifty Index chart for past one year

### Domestic Tractor Industry & M&M

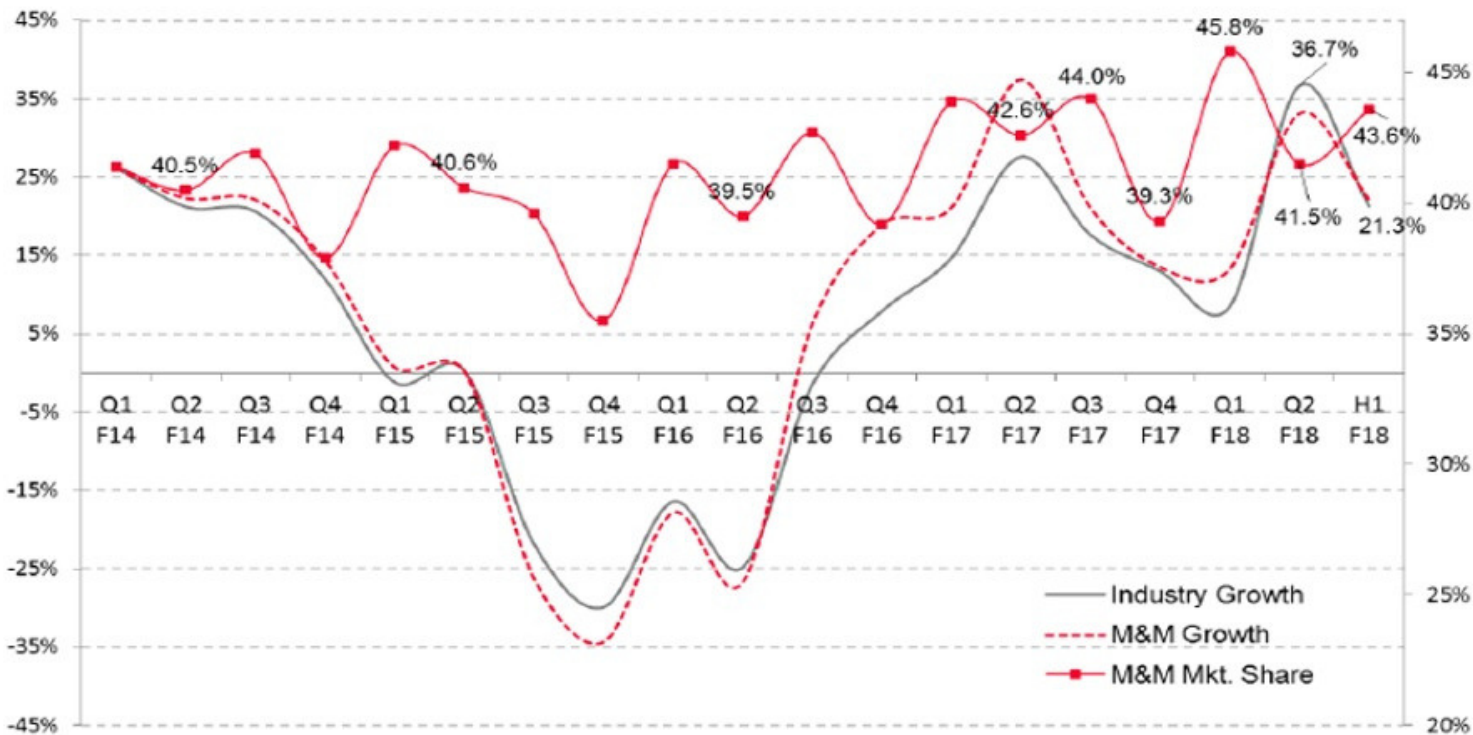
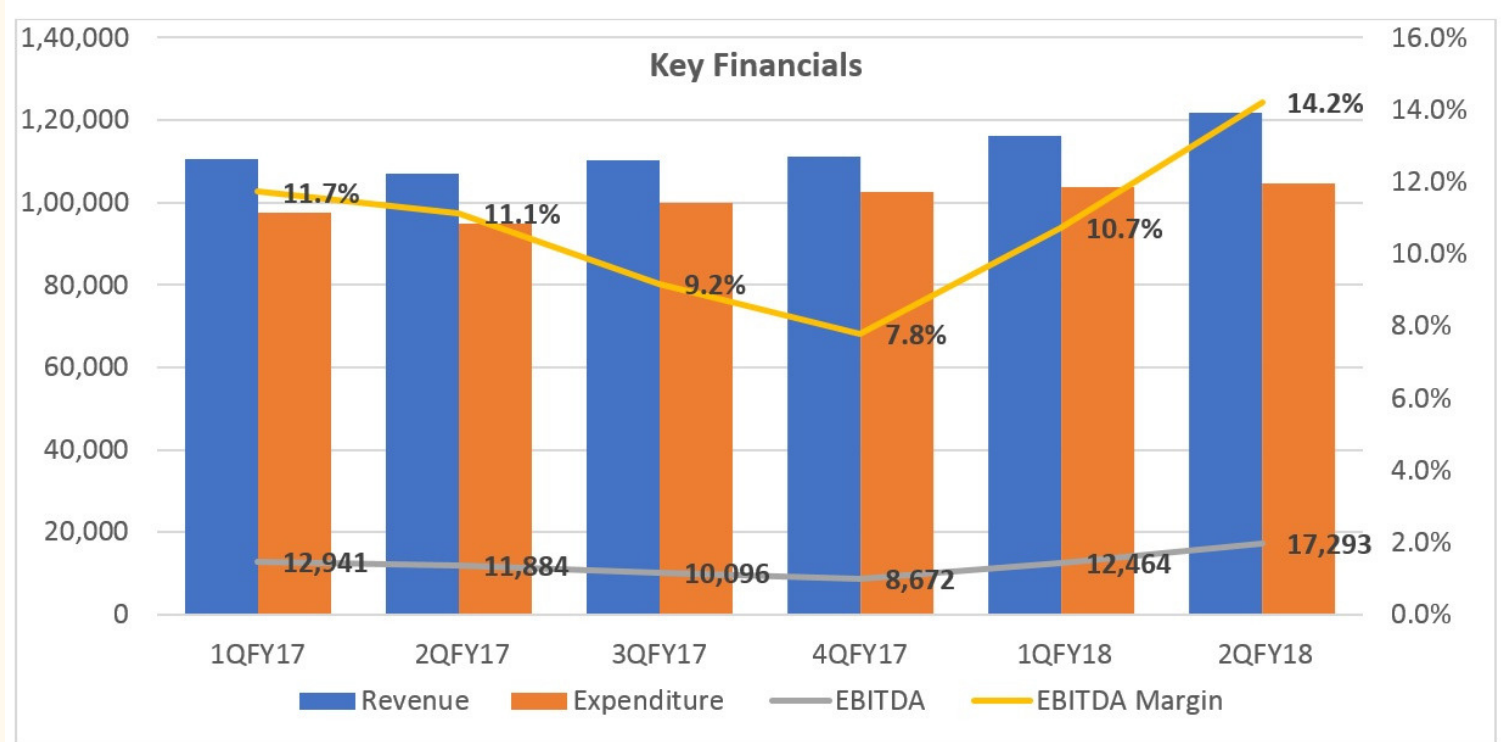
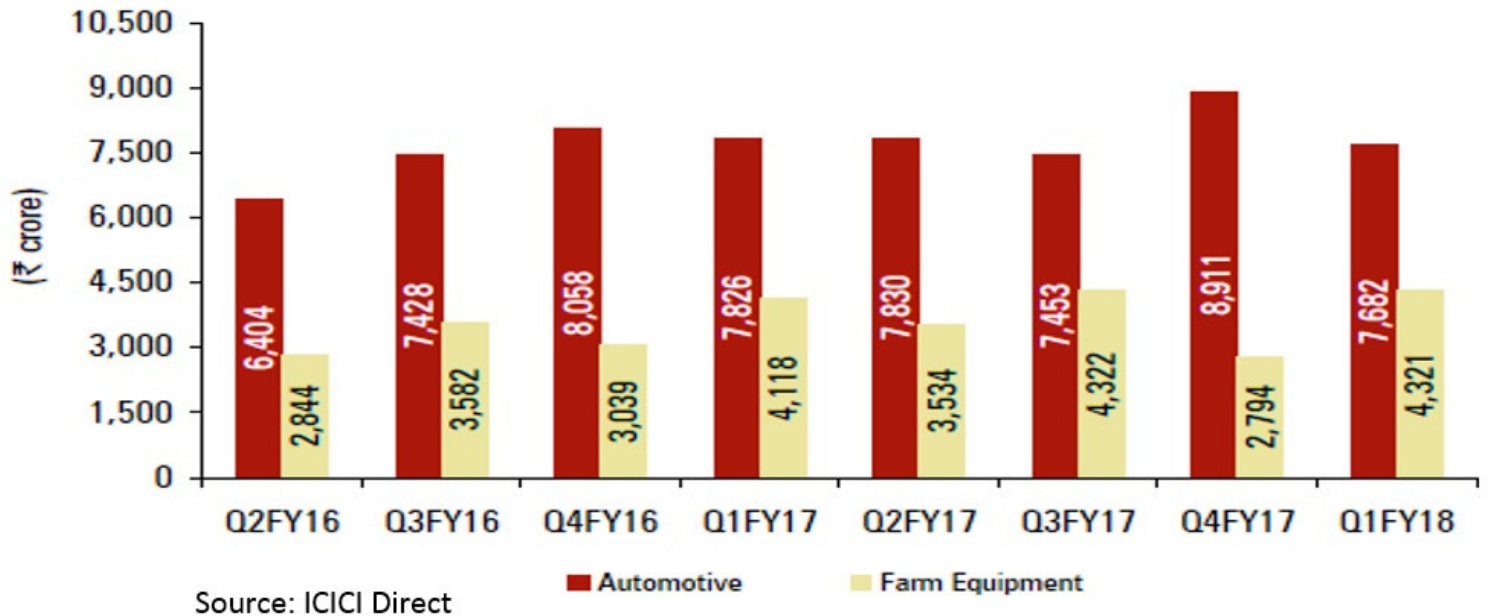


Fig 2: M&M is continuously maintaining market share above 39% (the next competitor has 21% market share). M&M also has a growth rate higher than Industry average of 21.3%



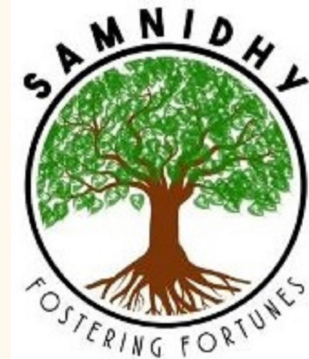


### Segment-wise sales break-up:



There is growth in revenue while maintaining constant expenditure which contributed to growth in EBITDA margin from 2017 Q4





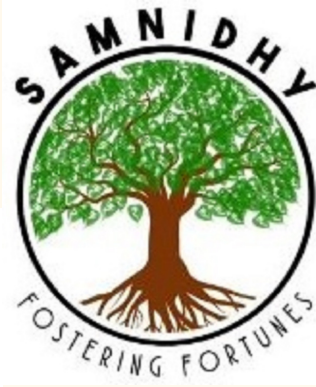
## Key highlights

- Uptick in quarterly EBITDA margin
- Volume to aid in expansion of margin and growth in profitability
- Launch of new models in UV segment

## Valuations of M&M

Valuations				
Rs, Year End March	2016	2017	2018E	2019E
<b>Revenue growth</b>	3.8%	7.1%	12.1%	12.6%
<b>EPS</b>	28.54	30.91	37.25	44.56
<b>EPS growth</b>	14%	8%	21%	20%
<b>DPS</b>	6	6.5	8.49	9.34
<b>ROE</b>	15.50%	13.50%	14.60%	15%
<b>P/E</b>	25.1	25.1	20.5	18
<b>P/BV</b>	3.6	3.2	2.9	2.60

There is expected minimum 12% revenue growth for the next two years. Thus, it will have EPS growth and higher ROE.



## Recommendation

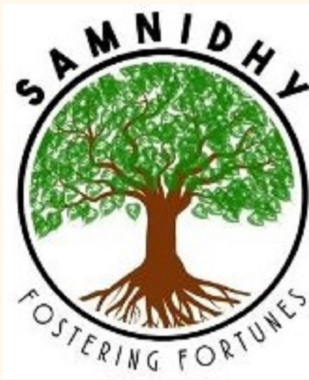
### Mahindra & Mahindra Ltd

<b>Consensus Rating</b>		4.69
<b>Buys</b>	91.1%	41
<b>Holds</b>	8.9%	4
<b>Sells</b>	0.0%	0

Source: Bloomberg

Samnidhy Analyst's Call	
<b>Recommendation</b>	BUY
<b>Target Price</b>	Rs. 860
<b>Investment Horizon</b>	12 Months
<b>Upside Potential</b>	13%

A normal monsoon and growth of sales in farm equipment along with budget (2018) emphasizing on rural sector, we are bullish on M&M. With 13% upside potential, we give a BUY rating with a target price of Rs 860 for next 12 months.

**Disclosure:**

We, Samnidhy, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. Research analyst or Samnidhy does not have any financial interest in the subject company. Further Research Analyst or Samnidhy or its associate does not have any material conflict of interest.

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